

5 September 1973

MEMORANDUM FOR: Director, Planning, Programming and Budgeting
Director of Logistics

THROUGH : Deputy Director Science and Technology

SUBJECT : Funding of Cognizant Equipment

REFERENCE : Executive Director Comptroller - The Management of
Technical Equipment by TSD/and OC dated 26 July 1972.

ATTACHMENT : Flow Chart of Proposed Changes

1. In accordance with reference instructions, this office has assumed full responsibility for the funding, stocking, and management of technical equipment for support of DDO operational requirements. OTS has completed a total review of the existing procedures and is desirous of further evaluation to determine the validity of the present mechanics prescribed for such responsibilities. Of concern are several areas that are either not compatible or not appropriate for the total and efficient management of this function:

a) Split procurement budgeting (PPA) of cognizant equipment:

The present procedure requires OTS to budget for two line items-0072 PRA and PPA-that represents OTS's total procurement capability. The PPA is for stock increases or new items and PRA has the double meaning of inventory drawdown and stock replenishment. The latter requires separate and distinct management control, i.e., inventory drawdown is a mechanism for removing cognizant equipment from stock in support of operational requirements and stock replenishment is a mechanism for replacing this stock via a production contract cycle. There does exist a definite interrelationship between the two, in that, without an analysis of the past, present, and projected operational requirements, a realistic production program cannot be formulated. Since drawdown is accomplished during a given fiscal year and procurement is typically greater than or equal to 12 months ARO, this suggests that management control of operational support and inventory procurements should require separate and distinct control mechanisms.

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b) Drawdown (PRA) restrictions: The present procedure does not permit relocation of stock from the field to Headquarters without the use of additional drawdown PRA unless the same item is withdrawn within a one year time frame. This procedure encourages stock piling of equipment and helps to perpetuate unnecessary distribution of inventory due to the one year time constraints on drawdown PRA. Since, OTS is basically our own customer, i.e., the development, production, stock control, and installation constitute a part of our overall mission, the present tie between drawdown and stock replacement represents unnecessary flexibility constraints. The present system is more applicable to commercially available inventories that have short - less than one year - lead time ARO's.

c) Five percent override factor: In June 1966, the use of a five percent override factor in the inventory pricing exercise was Agency approved. This increase was established as a method for overcoming losses due to obsolescence, inventory losses due to selected price increases, breakage, and spoilage while the items are stored and awaiting issue. This means that when OTS initiates procurement of an item for \$1,000 each, it would require \$1,050 of drawdown PRA to withdraw it from stock. OTS's budget projects these "losses" into our Program Call as part of the 0072 PRA or Repair and Retrofit line items.

2. OTS believes there are sufficient inflexibilities in the existing Agency funding mechanism for cognizant equipment and with the emphasis on management by objectives and functions, that consideration for change is warranted. As a starting point, the following areas viewed as areas for change:

- a) Separate the tie between inventory withdrawal and procurement. Base withdrawal on operational projection that use existing inventory and total procurement on future inventory.
- b) Remove the time limit on operational withdrawals and permit a free movement of cognizant inventory between the field and Headquarters.
- c) Eliminate the five percent override factor on cognizant equipment.

Attached is a flow chart indicating the present mechanism and the implementation of the proposed changes.

3. Since this office believes that appropriate changes in

these areas will result in a more meaningful management mechanism to provide a broader understanding and control of the technical equipment inventory, OTS wishes to review the proposals noted in this memorandum with officers from OPPB, the DDS&T's Comptroller's Office, and the Office of Logistics. Mr. [REDACTED] Chief, Equipment Division will contact each of these offices to arrange for such a review. The desired outcome of this review is to develop a common understanding of the areas of concern and to formulate appropriate action for implementation.

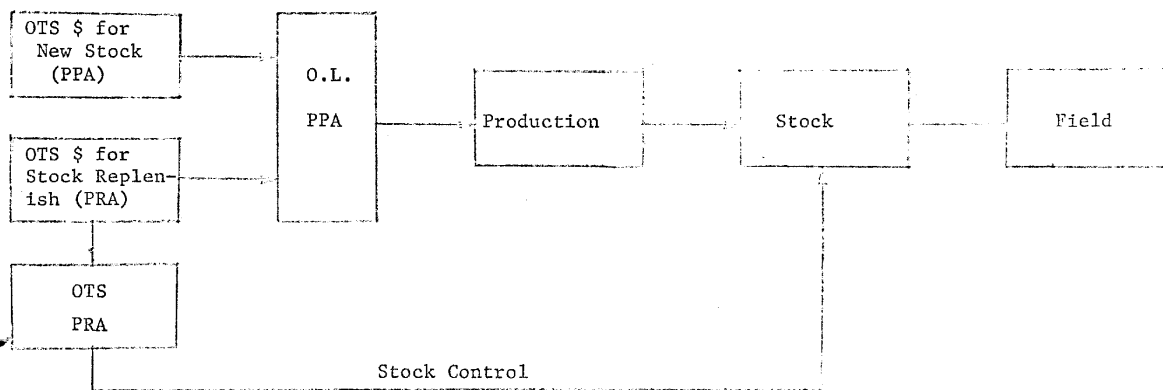
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Original Signed
JOHN N. McMAHON

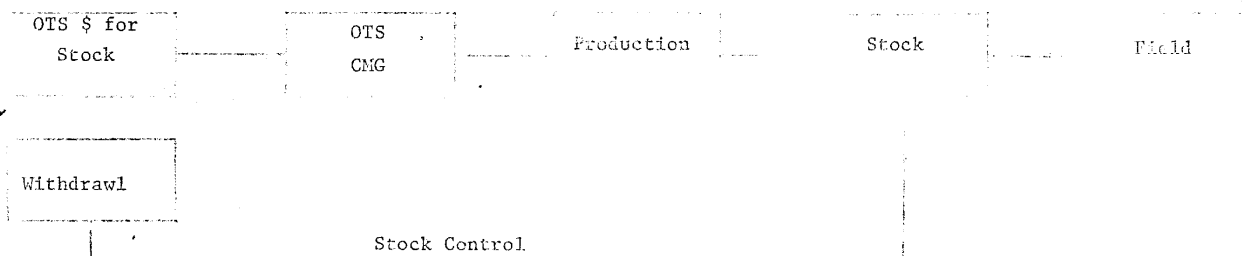
John N. McMahon
Director
Office of Technical Service

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PROPOSED



Attachment: Flow Chart of Proposed Changes

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INTERNAL

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SECRET

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Funding of Cognizant Equipment

FROM:

Director, OTS
203 South Building

EXTENSION

NO.

DATE

5 September 1973

TO: (Officer designation, room number, and building)

DATE

OFFICER'S
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1.

A/DD/S&T
6E60 Hqs.

9/17

Frank:

2.

3.

D/Logistics
1206 Ames Bldg.

4.

5.

6.

7.

8.

9.

10.

11.

12.

13.

14.

15.

The attached proposal from OTS raises some issues involving the Agency's logistics system and funding thereof. I transmit this proposal to O/PPB and OL to get the ball rolling on a review of an important issue raised with Mr. Colby in conjunction with the 1974/1975 Program. We are prepared to participate in any way you feel appropriate in helping to resolve this issue.

cc: D/PPB

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PPA/PRA WORKING GROUP AGENDA 2 AUGUST 1974

- I. Preliminary identification and definition of Working Group's immediate and ultimate goals.
2. General discussion of the continuing validity of Agency policies to which PPA/PRA system responds--i.e. program budget and inventory/procurement central control.
3. Comments, questions, clarification, observations on PPA/PRA system and alternative systems outlined in PPA/PRA study.
4. Organization of Working Group

DCI - Resource control + constraint
 Each manager to justify
 his resource requests in budget.

"Captive" usage of property is 26, 61
 being budgeted centrally -
 DCI may well reverse - we must
 look closely.. -

Determine Costs of present system or alternate ~~systems~~
 Resource Costs —

Blake quoted as being concerned of effect of PPA
 change on — PRA
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Each directorate estimate PRA costs. — (maintenance thereof)

C O N F I D E N T I A L

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MARCH 1980

ATTACHMENT TO SI 45-

TRANSACTION TYPE	ACTION	PRA FAN	MPA	DCN ASSIGNED BY	TAC	OF REQUIRES
To a U.S. Government agency, to an Agency activity such as EAA or Credit Union	Stock issue	First 4 sponsor digits plus 9998	None	IDSB	6I	(1) Copy of the agreement (2) Form 88
	Procurement	"	-188-9998	"	7R	(3) Shipping document or other evidence of delivery or shipment
To a foreign government, instrumental-ity, or individual	Stock issue	First 4 sponsor digits plus 9999	None	Sponsor-ing office	6I	(1) Form 88 (2) Shipping document or evidence that item shipped by pouch
	Procurement	"	-188-9999	"	7U	
Using advance "G" Funds to a U.S. Government agency, a Foreign government RRG/CTS (Accts. 1581/1601)	Stock issue	Assigned by OF 2nd digit "7"	None	Sponsor-ing office	6I	Form 88 only
	Procurement	"	Same as PRA FAN	"	NAR 8A	No documents to OF

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